

Financial Viewpoint

Information That Could Save You \$\$\$

The Importance of a Healthy Lease

Accurate and timely royalty reporting and payment will keep your “Lease in Good Standing”

- **Lease-level obligations:**

Lease-level obligations are rents, advance royalties, minimum royalties, minimum royalties payable in advance, and bonuses. The amounts due, and due dates, are outlined in your lease instrument. If you do not pay on time, MMS will assess interest.

In general, report your lease-level obligations on the Production and Royalty Report, Form MMS-4430 (P&R). However, there are exceptions when you must use the Report of Sales and Royalty Remittance, Form MMS-2014 (2014) to report lease-level obligations.

- **Royalty payments:**

Royalties are the payments you make based on sales of your production. Your lease instrument states whether you pay at an ad valorem or cents per ton rate. Federal payments are due the last day of the month following the month of your sale. For example if you sold in 12/2003, your royalties are due 1/31/2004. Indian payments can be due on the 25th of the month following the month of your sale. However, Indian leases vary, so check your lease instrument on the due date of your royalty payment. Again, MMS will assess interest if you pay your royalties late.

- Connecting the accounting dots will save you money!

A lease in good standing will speed the Bureau of Land Management's (BLM) review and issuances of these actions:

- **Royalty Rate Reductions:**

A company can request in writing that BLM lower the royalty rate stipulated in a lease. There are many reasons by which a request would be made, and among them are adverse geologic conditions or economic hardship. Before the BLM approves the lower rate (usually approved retroactively), BLM requests MMS to review the lease account.

- **Lease Assignment:**

A lease assignment involves the lessee transferring ownership of the lease to a different entity. The lessee may transfer part

of the lease or the entire lease. The assignment terms are stated in the lease instrument. However, before the lease can be assigned, BLM requests MMS to review the lease account.

- **Lease Relinquishment:**

A lease relinquishment involves the lessee surrendering or abandoning all rights to the lease. Relinquishment terms are also stated in the lease instrument. The lessee, lessor, or BLM can request for a lease to be surrendered. However, before the relinquishment can occur, MMS must review the lease account.

If you have not reported and paid your obligations according to your lease terms, your request for royalty rate reductions, lease assignments and lease relinquishments will be delayed.

Form MMS-2014 vs. Production & Royalty Report

Regulations beginning at 30 CFR § 210.200 require lessees (sometimes termed payors and/or customers) to report on the P&R. The P&R report consolidates production, lease-level obligation and sales royalty reporting, and is done through the internet. Before the P&R, customers reported production on the Solid Minerals Operations Reports A&B (SMOR) and Solid Minerals Facility Reports A&B (SMFR). Further, customers reported lease-level obligations and sales royalties on the 2014. Although the P&R is the primary reporting tool for solid minerals customers, there are instances when the customer must use the 2014. Those instances include:

- a) Reporting missed pre-populated lease-level obligations
- b) Reporting adjustments

When did MMS require customers to report on the P&R?

- By 'Dear Solid Minerals Reporter' letter dated September 25, 2001, MMS requested the first P&R submission be the August 2001 sales month. Because the P&R collects production, sales and royalty data, some information was a duplicate of the submitted 2014.
- The final submission for the 2014 was the September 2001 sales month.
- The final submission for the SMORs and SMFRs was the July 2001 sales month.

If a customer must use the Form MMS-2014, it can be found on the web at:

<http://www.mrm.mms.gov/ReportingServices/Forms/Forms.htm>

Under 'Reporting Forms', find the heading 'Current Solid Minerals Forms'. Click on 'Royalty Reporting Forms'. Then click on 'MMS-2014'.

Unlike the old version, the new version has four lines per page. The differences between the old 2014 vs. the new 2014 will be outlined in a later section.

WARNING: Please do not use the old version of the 2014. You may be asked to redo your report using the new version.

As mentioned, there are instances when you must use the 2014. Two instances are to:

- **Report lease-level obligations not reported on your P&R:**
Rent, Deferred Bonus, and Minimum Royalty Payable in Advance (MRPIA) are listed on the 'Other Obligations' tab the month before their due date (what MMS terms as 'pre-population'). Occasionally, a customer fails to submit the P&R containing the pre-populated obligations. If this happens, you must use the 2014 to report the missed submission. There is an exception to this rule, however. If you fail to submit a pre-populated deferred bonus obligation, you must contact MMS immediately. Deferred bonuses cannot be reported on the 2014; therefore, MMS must create an internal receivable to report it.
- **Report adjustments to sales month/years not originally reported on the P&R:**
For example, if you reported 'original' royalties for any sales month/year on the P&R via the 'P&R Original' tab, then you should make adjustments on the P&R via the 'Adjustments' tab. If you did not report 'original' royalties on the P&R, but instead reported on the 2014, then you must make any adjustment via the 2014.

If your company participated in the Solid Minerals Operational Model and you were required to report on the 2014 and P&R for the same sales month/year (dual reporting), the following instructions regarding adjustments were e-mailed to you on March 25, 2003:

Because of the problems we've encountered with the converted Ruby data, we ask you to please refrain from making adjustments to P&R reports for the mines and sales months listed below. If your mine doesn't appear on the list, or your mine appears on the list, but the month/year you want to adjust doesn't, you can submit a volume/value adjustment report or value adjustment report.

*Model Properties with potential converted Ruby data sales month problems:
Absaloka MA950 Westmoreland 6/99, 7/99, 9/99, 11/99, 12/99, 2/00, 6/00, 7/00, 8/00, 5/01
Antelope MA039 Kennecott 11/99, 11/00, 12/00
Belle Ayr MA137 RAG 6/99
Big Sky MA097 Peabody n/a
Colowyo MA163 Kennecott 4/99, 2/00, 2/01
Deer Creek MA906 Pacificorp 7/99, 8/99, 9/99, 10/99, 12/99, 8/00
Eagle Butte MA137 RAG 6/99
Jim Bridger MA741 Pacificorp 12/99, 10/00
La Plata MA738 BHP n/a*

N. Antelope/Rochelle MA654 Peabody 5/01
Navajo MA900 BHP n/a
San Juan MA738 BHP n/a
Seneca II MA630 Peabody 1/99, 12/00
Spring Creek MA827 Kennecott 7/96, 7/98, 5/99, 6/00
Star Point MA352 RAG 4/99, 10/99, 2/00, 11/00
Trail Mountain MA906 Pacificorp 9/99, 10/99, 7/00, 8/00
Twenty Mile MA232 RAG 1/00, 2/00, 3/00, 7/00, 11/00, 1/01, 2/01
Willow Creek MA352 RAG 12/99

Rent, Deferred Bonus, and MRPIA are the only obligations which pre-populate the 'Other Obligations' tab of the P&R. Again, these obligations will pre populate the month before their due date. Once these obligations pre-populate (and you do not login and submit the P&R which contain them), they will not pre-populate again; this means you've missed reporting them through the P&R. (Note: since these obligations pre-populate, they will not be available in the drop down menu under 'Payment Types' displaying all other obligations in the 'Other Obligations' tab.)

Again, when you fail to open and submit a P&R with pre-populated lease-level obligations, you miss reporting those obligations on the P&R and must report those obligations on the 2014. For example, if Rent is due 1/2004, it will pre populate in December 2003. If you do not log in to the P&R in December 2003 and submit the P&R which contains the rent, it will NOT be reported. Consequently, you must fill out a 2014 to report the rent (remember, the exception to this rule is the Deferred Bonus obligation; if you miss reporting it, contact MMS immediately).

2014 Reporting Tips

- Remember to use the new 4-line version
- If you are making adjustments, you must 'back' out the original line and enter the new line on your new report. Remember, you cannot make 'net' adjustments (as you can on the P&R) on the 2014.
- Remember the paper 2014 is manual (non-electronic) and requires 2-3 weeks process time, so submit early.

Some Differences between the old version and new version of the 2014:

1. **Box 4:** this was the 3a number on the old 2014. You must assign a unique eight character Payor-Assigned Document Number in this space. If you have a specific question on this document, refer to the Payor-Assigned Document Number you've assigned.
2. **API Number:** this is on the new version, but does not apply to solids customers.
3. **Agreement Number:** this is on the new version, but does not apply to solids customers.
4. **Sales Type Code:** The codes for this column denote contract types (i.e. Arms length vs. Non-arms length). This applies to solids customers
5. **Allowances:** Customers can now report transportation and processing allowances on the same line as the royalty line. The old version required a separate line entry for allowances. Although not a requirement, the customer 'may' report allowances as separate line entries on the new 2014.
6. **Credits:** the customer is allowed to include any documents which contain credits on the new 2014. For solids customers, please consult with a solids accountant before you fill out this area.

Listed below are some of the transaction codes and payment method codes solids customers will use on the new 2014. For a complete list, please go to:

<http://www.mrm.mms.gov/ReportingServices/RoyReplInfo.htm>

Scroll down to 'Form MMS-2014 Codes' and click on 'Data Elements by Transaction Code'.

Transaction Codes are:

TC 04 = Non-recoupable Rent

TC 05 = Recoupable Rent

TC 02 = MRPIA

TC 25 = Recouping Rent
TC 33 = Recoup Advance Royalty
TC 52 = Recoup MRPIA

Payment Method Codes are:

1 = Check
3 = Electronic Funds Transfer (EFT)
2 = Indian reports

Note: Unless otherwise directed by MMS, if you submit a report containing Indian leases, you must use payment method code 02

You cannot submit the 2014 electronically; thus, you must fill out a paper copy to submit to MMS.

If you do not submit a P&R or a 2014 to report pre-populated obligations, MMS will mail you a FIN type invoice or bill. FIN type invoices are generated for lease-level obligations that have not been reported. FIN type invoices replace the TBILs you used to receive with the MMS legacy system. Other types of invoices are:

- INT = generated for interest due on late payments (replaces GBIL and IBILs)
- OIR = generated for over recoupment of Indian balances
- OTH = generated for audit or compliance findings (replaces FBILs)

Failure to report, mis-reporting, and non-payment of lease-level obligations are the leading causes of a lease to be “Not in Good Standing”.

Adjustments:

As previously discussed, pre-populated items that you missed reporting on the P&R requires you to submit a 2014. In addition, adjustments also require you to submit 2014s. These are the types of adjustments that you must report on a 2014:

- Value adjustments not reported on your P&R
- Retroactive Royalty Rate Reductions not reported on your P&R
- Establishing a credit for a sales month not reported on your P&R

Value Adjustments:

Generally, you report sales royalties via the 'P&R Original' tab. Thus, any adjustments you make will be through the 'Value Adjustments' tab of the P&R. (Note: value adjustments can also be made through the Volume/Value Adjustment Report; however, if you are only making value adjustments and no volume changes, please use the 'Value Adjustments' tab, as the Volume/Value Adjustment Report is more complicated to complete.) However, if you did not submit original sales royalties via the P&R, then any adjustments you make will be through the 2014 (see additional explanation on next page). You must use the new version of the 2014.

Retroactive Royalty Reductions:

Again, as long as you report your sales royalties via the 'P&R Original' tab, then any adjustment you make to reflect your approved royalty rate reduction will be through the P&R. Otherwise, you must use the 2014.

Royalty Rate Reduction (RRR) Tips:

While you are awaiting approval from BLM on your royalty rate reduction request, please continue to report and pay lease-level obligations and royalties at the original (higher) rate. Reporting and paying your obligations and royalties at the original royalty rate will expedite establishing your credit once your lower rate is approved by BLM.

You establish your credit for your royalty rate reduction in one of two ways for each sales month:

- 1) If your original royalties for a specific sales month were established using the 2014, then your credit for that sales month will be established via the 2014 also. You will 'back out' the originally reported line with the original royalty rate and thus showing the higher royalty amount and re-report another line with the reduced royalty rate and therefore, lower royalty amount.
- 2) On the other hand, if your original royalties for a specific sales month were established via the P&R, your credit will be established on the P&R via the Volume/Value Adjustment Report.

Credits:

If you establish the obligation by reporting on the P&R, then you recoup by also using the 'Other Obligations' tab of the P&R. However, if you established the obligation by reporting it on the 2014, then you must recoup by also using the 2014.

If you did not previously submit an original P&R, you still have the option of making your adjustment via the P&R (instead of using the 2014 as stated above). Before you can make an adjustment on the P&R, you **MUST** submit a P&R Original for the sales month(s) for which you want to make your adjustment. Please call MMS for help.

Use the P&R to report various types of credits for a lease account:

- Recouping Rent
- Recoup Advance Royalty
- Recoup Minimum Royalty Payable In Advance

However, if you established the obligation on the 2014, then you must recoup using the 2014. For example, if you reported recoupable rent due 01/2001 on the 2014, then you must recoup that rent on the 2014 also.

P&R Reporting Tips

On the Main Payment Page tab of the P&R:

- Do not change the Customer Document ID on the P&R.
- Make sure you use the same Payment Method Type on the P&R as your Payment. If you submit an incorrect payment method on the Main Payment page of the P&R, you can correct your submission, but first call MMS for help.

The exception is for pre-populated obligations on the P&R. If you submit a P&R with pre-populated obligations with the incorrect payment method, you cannot correct it using the P&R because the pre-populated obligations are not available to be chosen from the 'Payment Type' dropdown menu. You must use a 2014 to correct your mistake.

Critical Electronic Wire Payment and check information includes:

- Customer Name
- Customer ID (MA___)
- Customer Document ID used on the P&R, or Payor-Assigned Document Number on the 2014. If your wire or check pays for multiple documents, list each document on your payment instrument

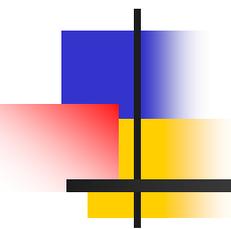
Contact Information

The Financial Team:

John Hovanec – (303) 231-3312

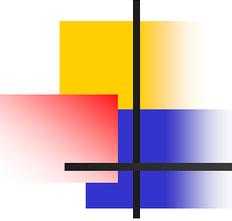
Patrick Mulcahy – (303) 231-3330

Minnie O' Quinn – (303) 231-3343



INFORMATION THAT COULD SAVE YOU MONEY

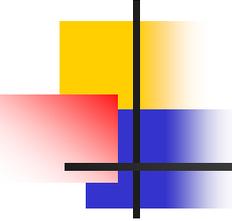
The following provides payment
and reporting tips that could save
you money



Information That Could Save You Money

Accurate and timely royalty reporting and payment will keep your “Lease in Good Standing”

- Lease-level obligations
- Royalty payments
- Connecting the accounting dots will save you money!

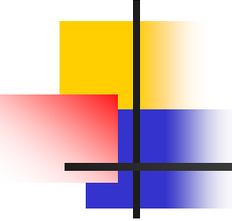


Information That Could Save You Money

A lease in good standing will speed the BLM's review and issuances of these actions:

- Royalty Rate Reductions
- Lease Assignment
- Lease Relinquishment

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Information That Could Save You Money

1. When to use the Report of Sales and Royalty Remittance Form MMS-2014 (2014) for:
 - Reporting lease-level obligations
 - Reporting adjustments
2. P&R Reporting Tips
3. Payment Tips (wires & checks)
4. Contact Information

Information That Could Save You Money

1. When to use 2014? Where is it?

<http://www.mrm.mms.gov/ReportingServices/Forms/Forms.htm>

Reporter Information Forms Home Page - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Home Search Favorites Media Print Mail

Address <http://www.mrm.mms.gov/ReportingServices/Forms/Forms.htm>

MMS Home Search Topic Index About MMS What's New U.S. Department of the Interior

Minerals Management Service
Minerals Revenue Management

Reporting Forms

Current Oil and Gas Forms

- [Royalty Reporting Forms](#)
- [Production Reporting Forms \(Offshore and Onshore\)](#)

Current Solid Minerals Forms

- [Royalty Reporting Forms](#)

Appeals

- [Administrative Appeal Bond \(MMS-4435\)](#)
- [Letter of Credit \(MMS-4436\)](#)
- [Surety Instrument Posting Instructions](#)

Application for Reward For Original Information

- [MMS-4280, Part A and B](#)

Indian Crude Oil Valuation Report

Information

- Assoc. Director's Page
- Reporting Information
- Laws & Regulations
- Product Valuation
- Tribal Services
- Royalty-In-Kind
- Statistics
- Studies/Reports
- Advisory Committees
- FOIA
- What's New
- Links
- Site Map
- Guest Book
- Privacy Act/Disclaimers

Click Here

Information That Could Save You Money

1. When to use 2014? Where is it? (cont'd)

Reporter Information Forms, Solid Minerals - Microsoft Internet Explorer

Address: http://www.mrm.mms.gov/ReportingServices/Forms/AFSSoL_Min.htm

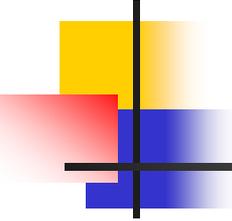
MMS Minerals Management Service
Minerals Revenue Management
U.S. Department of the Interior

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Product Valuation
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What's New
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Royalty Reporting Info
Electronic Reporting

Royalty Reporting Forms

Solid Minerals	
MMS-2014	Report of Sales & Royalty Remittance (Expires October 31, 2006)
MMS-4030	Payor Information Form, Solid Minerals (PIF)
Coal Washing Allowance	
MMS-4292	Report and General Instructions
Schedule 1	Coal Washing Summary Sheet
Schedule 1A	Non-Arm's-Length Washing Operations, Maintenance and Overhead Expenditures
Supplemental Schedule 1A	Non-Arm's-Length Washing Facilities, Operations, Maintenance, and Overhead Expenditures
Schedule 1B	Non-Arm's-Length Washing Facilities Depreciation and Capital Expenditure Summary
Coal Transportation Allowance	
MMS-4293	Report and General Instructions

Click Here

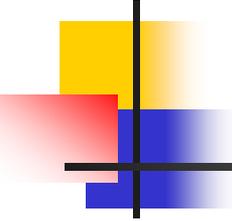


Information That Could Save You Money

1. When to use 2014?

Use the 2014 to:

- Report lease-level obligations not reported on your P&R
- Report adjustments to sales month/years not originally reported on a P&R



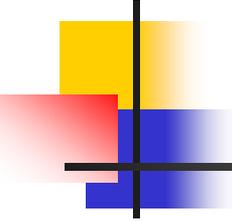
Information That Could Save You Money

1. When to use 2014? - obligations

If you do not open your P&R the month prior to the due date of:

- Rent
- Deferred Bonus
- Minimum Royalty Payable in Advance (MRPIA)

These terms will not pre-populate on P&R again



Information That Could Save You Money

1. When to use 2014? - obligations (cont'd)

- If you miss the P&R reporting window for pre-populated lease-level obligations, you must report those obligations on the 2014
- Use the new 4-line revised version
- Using the paper 2014 is manual and requires 2-3 weeks process time

REPORT OF SALES AND ROYALTY REMITTANCE
 FORM MMS-2014

1 PAYOR NAME: **Solid Corporation**

2 PAYOR CODE: **MA999**

3 FEDERAL/INDIAN REPORT INDICATOR **F** (F or I)

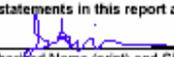
4 PAYOR-ASSIGNED DOCUMENT NUMBER **2004OBLI**



For MMS Use Only

5 LINE NUMBER	6 RESERVED FOR PREPARER'S USE	7 MMS LEASE NUMBER	8 API WELL NUMBER	9 MMS AGREEMENT NUMBER	10 PRODUCT CODE	11 SALES TYPE CODE	12 SALES MOYR (MMOCCY)	13 TRANSACTION CODE	14 ADJUSTMENT REASON CODE	15 SALES VOLUME (Mcft/bbl/gal/long ton)	16 GAS MMBtu	17 SALES VALUE \$	18 INTENTIONALLY LEFT BLANK	19 ROYALTY VALUE PRIOR TO ALLOWANCES \$	20 TRANSPORTATION ALLOWANCE DEDUCTION \$	21 PROCESSING ALLOWANCE DEDUCTION \$	22 ROYALTY VALUE LESS ALLOWANCES \$	23 PAYMENT METHOD CODE
1		M00678787			0		01/2004	05									5000.00	03
2		M00989898			0		01/2004	02									2000.00	03
3																		
4																		

I have read and examined the statements in this report and agree they are accurate and complete.

Jan Smit  **12/15/2003**
 Authorized Name (print) and Signature Date

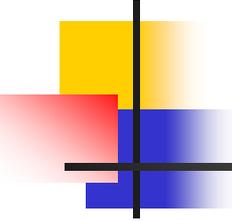
If company contact information has changed, please indicate below: (Please print)

Contact Name _____ Phone Number _____
 Street _____ P.O. Box _____ Suite or Other Identifier _____
 City _____ State _____ Zip Code _____
 Fax Number _____ Email Address _____

PAYMENT INFORMATION

Checks To MMS (PM1)	_____
*Indian Direct Pay (PM2)	_____
EFT Payments (PM3)	7,000.00
*Royalty-In-Kind (PM4)	_____
Checks To MMS For BIA (PM5)	_____
Other (For Future Use) (PM6)	_____
*Indian Lockbox (PM7)	_____
Total All Payments:	= 7,000.00
Less Available Credits: (*Credits may not be applied to PM2, PM4, PM7)	_____
Doc. ID:	_____
Doc. ID:	_____
Doc. ID:	_____
Net Payment for this Report:	=

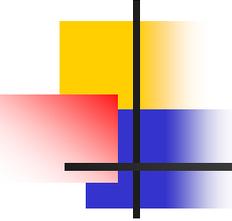
PAGE TOTAL	7000	00
REPORT TOTAL	7000	00



Information That Could Save You Money

1. When to use 2014? - obligations (cont'd)

- Not establishing lease level obligations **correctly** will generate a “FIN” or Invoice Bill
- This is one of the leading causes for an out-of-balance account (Not in good standing)

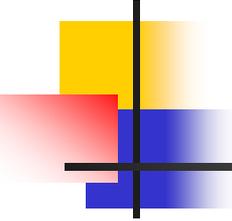


Information That Could Save You Money

1. When to use 2014? - adjustments

Types of adjustments requiring 2014 include:

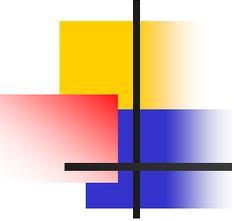
- Value adjustments not reported on your P&R
- Retroactive Royalty Rate Reductions not reported on your P&R
- Establish a credit for sales month/year not reported on your P&R



Information That Could Save You Money

1. When to use 2014? - adjustments

- You can use the “Value Adjustment” tab on the P&R if you submit original P&R prior to August 2001
- If not, you must use the MMS-2014

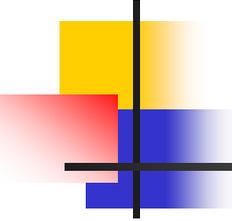


Information That Could Save You Money

1. When to use 2014? - adjustments

Royalty Rate Reduction (RRR) Tips:

- Continue to report and pay lease-level obligations and royalties at the original rate when applying for a RRR
- Failure to report a RRR properly will not establish a **CREDIT** for your account

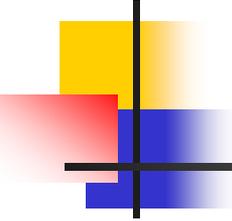


Information That Could Save You Money

1. When to use 2014? - adjustments

Use the P&R to report various types of credits for a lease account

- Recouping Rent
- Recoup Advance Royalty
- Recoup MRPIA
- but, if the original obligation was reported on a 2014, you must use the 2014 to credit the lease account



Information That Could Save You Money

2. P&R Reporting Tips

- Do not change the Customer Document ID on P&R
- Use the same Payment Method Type on the P&R as your Payment

P&R Reporting Tips

Main Payment

P&R Original

Value Adjustment

Other Obligation

[Log Out of P&R](#)

Mine Name

Business Unit

Sales Month

Mine No. 1

Federal/State/Fee

November, 2003

Main Payment



Warning:

Your Mine Level Total Production Units has a 25% or more variance when compare to the mine's last reporting period.

If you accept the fact that there is a variance of 25% or more, you can

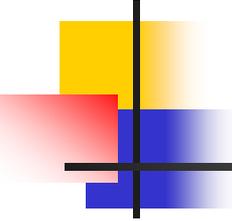


by-pass the validation.

Do not change this ID

Submission ID:	PAR17422
Customer Number:	MA989
Customer Document ID:	PAR17422
Payment Method:	Electronic Funds Transfer
Federal/Indian Indicator:	FED01
<u>Production & Royalty Total:</u>	\$ 750.00
<u>Other Obligation Total:</u>	\$ 0.00
<u>Value Adjustment Total:</u>	\$ 0.00
Sub Total:	\$ 750.00
Credit 1 Amount:	\$ 0.00
Credit 1 Doc ID:	-
Grand Total:	\$ 750.00

Make sure this is the same as the payment you send

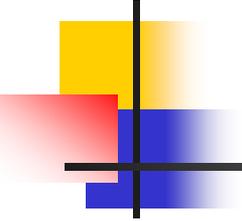


Information That Could Save You Money

3. Payment Tips

Critical Electronic Wire Payment and check information includes:

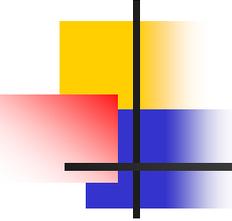
- ✓ Customer Name
- ✓ Customer ID (MA____)
- ✓ Customer Document ID used on P&R or Payor-Assigned Document Number used on MMS-2014 (box 4)



Information That Could Save You Money

Accountant's View Point:

- Time is Money
- Do it right the first time and it won't come back to haunt you.
- If you need help - call



Information That Could Save You Money

4. Contact Information

- the Financial Team:

John Hovanec – (303) 231-3312

Patrick Mulcahy – (303) 231-3330

Minnie O' Quinn – (303) 231-3343